



EXHIBIT 3
DATE 1-15-09
HB 185

Leif Wickland <leifwickland@gmail.com>

MT 529 plan

Erich Hannan <erichhannan@yahoo.com>

Wed, Jan 14, 2009 at 8:58 PM

To: Leif Wickland <leifwickland@gmail.com>

I am a resident of Bozeman, MT, and I have two children (ages 2 and 4) and a third due this March. I have been a contributor to the Montana FESP for our two kids since they were born. However, I was disappointed when one of my colleagues forwarded an independent Morningstar analysis that basically says the Montana program is not worth it for people like me, with young children. I verified the horribly high expense ratios for our program at Pacific Life's own website and found that none of the available fund options have an expense ratio less than 1%. Based on my own independent research, I concluded that even with the MT income tax deduction, I should not have elected to invest in the Montana FESP in its current form. This prompted me to write to my state representatives regarding the situation.

I am encouraged to see legislation intended to enhance 529 plan options, and I strongly support any legislation that gives me better choices when investing in my children's future.

My primary requirements for new 529 legislation are:

1. **Lower Fees.** The cheapest fee option for Montana residents (the direct sold option) is exorbitant, even after recent fee cuts from Pacific Life. A range of 1.18% to 1.44% is extremely high relative to other investment options. I want a 529 plan that includes investment options with fees less than 0.5%, preferably with an option to use market index funds which traditionally have even lower fees (as low as %0.09). As a parent with young children, I should not have invested in the current Montana 529 plan because these high fees will eat away at any tax advantage I received over the life of my investment.
2. **Flexibility.** I would like to have as many options as possible to choose from. As a state with a relatively low population base, it seems the best option to provide flexibility to our citizens would be allow a tax advantage for contributions to any qualified 529 plan from any state, not just the official Montana 529 plan administered by Pacific Life.
3. **Transferability.** I want to be able to take my existing assets with Pacific Life and transfer them to whatever new option gets created without being penalized with a recapture tax on deductions I claimed on previous 529 contributions.

Thank you for your consideration.

Sincerely,
Erich Hannan

Backup Material:

Here are my points in response to <http://leg.mt.gov/content/publications/fiscal/subcommittees/PEPB>

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These discussions have resulted in the following:

- The fee and expense structure charged by Pacific Life for the Montana 529 plan has been reduced so that according to industry analyst Morningstar, the Montana plan fee/expense range is 1.18% to 1.44% as of May 31, 2007. This range is very much in line with the other 529 plans across the nation

[Erich Hannan]

I do not believe this is true. For example, look at Vanguard's plan which offers funds who's fees range from 0.5% to 0.7%

<https://personal.vanguard.com/us/accounttypes/college/ATS529AcctFeesContent.jsp>

The current Pacific Life fee ranges from 1.18% to 1.44% are very high.

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Complication: Similar to the prior options, this may not provide relief for existing account investors.

[Erich Hannan]

The author lists a number of options considered by the Board of regents, a number of which listed the above complication for existing account holders. I agree. Any changes to the 529 plan should account for people who currently hold Pacific Life funds and allow them to transfer existing balances into new options without any penalty.

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Legislative Options

- The legislature may want to consider expanding the State of Montana income tax deduction eligibility to include 529 programs offered by other states so that Montana residents would have more investment options to consider (those products from other states) and still receive the Montana income tax advantages (\$3,000 to \$6,000 annual income tax deduction)
- Change the recapture tax provision so that Montana residents who wish to change their investments to another state's account would not be required to pay the recapture tax rates for the prior years state tax deduction, thus allowing current investors to change 529 plans without paying these back taxes

[Erich Hannan]

I strongly believe that we should enact legislation to pass both of these suggested options.

From: Erich Hannan [erichhannan@yahoo.com]

Sent: Wednesday, February 20, 2008 5:46 PM

To: Pomnichowski, Rep Jennifer

Subject: fund expense ratios

JP,

I am a constituent in your district. I sent the following email to the

contact address on the MT College Savings web site and never received a response. As my state senator, I was hoping you could help me with this issue. Our state 529 plan is terrible! I made some naive assumptions when choosing this medium to try and insure a decent college education for my kids. I read the material presented at <http://montana.collegesavings.com/montana/> and it sounded like a good deal. After a co-worker published some alarming information at <http://montana529.info> and some recent research I've realized that the Montana 529 is so bad, it was actually a mistake for me to invest in it.

My main gripe is that the funds offered by Pacific Life are universally ranked as the most expensive on the market. Here are all of the 529 plans in the nation, ranked by cost (http://www.savingforcollege.com/529_fee_study/highest.php). That's right, we're the worst. And, to top it all off, those exorbitant fees are fleecing the pockets of California investment bankers. That ought to rub any Montanan the wrong way.

I agree with Mr. Wickland's conclusions on his site that we should do three things:

1. At least deal with the Pacific Life situation and engage other vendors to provide better options than what Pacific Life is providing. These options should include market index funds.
2. Pass a law to allow MT citizens to invest our hard-earned money with any 529 compliant plan. I believe this would eliminate overhead costs to the MT state government and provide us citizens with the best choices.
3. Mandate reports from the board of regents on the national competitiveness of our state 529 program, so we don't slip into this mess again.

I would also add that when new options are provided, plan participants should be able to transfer their money out of Pacific Life accounts and in to the new options.

From <http://mus.edu/board/MFESP071007minutes.pdf>
Todd Buchanan asked about offering a tax break no matter what states plan a Montana resident invested in. Bruce Marks indicated that for this to happen, a change in statute would need to occur.

I take this to mean that it would take an act of congress to allow us to take a MT tax advantage when investing in another state's 529 plan. Education is one of the pillars of society and I feel that the state of Montana should be doing more to insure that we can afford to send our kids to college in the future. I'd encourage you to read the linked articles I included.

Is this something you would be willing to pursue in the next legislative session?

Sincerely,

Erich Hannan
1507 Driftwood Dr.

Hello. I am Leif Wickland, a software engineer from Belgrade and father of a two-year-old.

After some of the initial awe of becoming a father wore off when my daughter was born in 2006, I began looking for ways to save for her college education. I investigated Montana's 529 plans, but was entirely disappointed with what I found. The information that was available was not very clear. From what I could discern, the CDs paid rates of return that were far too low to consider given my time horizon and the equity funds in Pacific Life's portfolio had management fees that were far too expensive at double or triple what I was accustomed to paying in my retirement account. I was so frustrated, I gave up and didn't begin investing for my daughter's education from birth as I had planned.

Fast forward to early 2007 when I was doing my taxes. Having to review my finances made me think again about saving for my daughter's education. I resolved to research the issue thoroughly. What I found was that Montana's Pacific Life portfolio was routinely cited as one of the most expensive in the nation by experts such as Morningstar and SavingForCollege.com. Both noted that it was the state's income tax deduction that made the plan palatable. Non-residents were recommended to avoid it. Arizona had recently dropped its Pacific Life 529 plan. I felt like not only was I getting a bum deal, but all Montana families were and are being shortchanged. Parents were being asked to choose either a short term benefit for themselves in the form of a tax deduction or to favor their children's long term interest by investing in a more cost-effective plan that wouldn't offer a tax break.

I asked my accountant about 529 plans. She said most of her clients chose to go with Montana's plan because they wanted the tax break. I decided to buck the trend and invest in Vanguard's plan sponsored by Nevada, which at the time was the least expensive I could find. A few months later, I realized the optimal strategy was to invest initially to Montana's plan and then roll the funds over into a less expensive plan. Consequently, I opened a funded Pacific Life account, which I plan to transfer to my Vanguard account.

Sadly, in the nearly two years since I began researching this issue in earnest, Pacific Life hasn't meaningfully reduced their funds' expenses. Jill Tripp has already done a fine job detailing the current condition of Montana's plan, so I will not rehash that.

I have had a chance to discuss this issue with Todd Buchanan, one of the Regents on the committee

overseeing Montana's college saving plans. Todd has recognized the deficiencies of the current offerings and should be commended for trying to find better. Unfortunately, Montana is a small enough market that he was unable to find a provider interested in starting a new plan for our state.

HB 185 offers the next best solution to this problem. I urge you to support it.

I have been talking about the 529 plan like it's "Montana's." Really the plan is Pacific Life's. Should we feel some loyalty toward the plan because it bears Montana's name? Absolutely not. The plan is operated by a California company with no offices in Montana. We have essentially licensed Montana's name to this company in exchange for a bad deal for its citizens.

In closing I'd like to suggest a small change to HB 185. Currently, the bill would extend the same tax advantages to all states' plans. I believe this wording would inadvertently exclude federally qualifying 529 plans which are administered by educational institutions, instead of by states. For example, the Independent 529 Plan is administered by a coalition of nearly 300 colleges spread throughout most states of the Union. Its members include Whitworth, Pacific Lutheran, Concordia, Carnegie Mellon, and Vanderbilt. Because this plan is not administered by a state, it apparently falls under USC 529(b)(1)(A)(i), not 529(b)(1)(A)(ii), and contributions to it wouldn't appear to qualify for a deduction. I'm not a tax lawyer and I haven't run this interpretation past one. However, I think the bill's wording should be tweaked to explicitly benefit contributions to this type of plan.

Thank you very much for taking the time to hear your constituents' thoughts on this bill. Please support HB 185.